

BUSINESS RESOURCE CENTRE

ENTREPRENEUR

HANDBOOK

Starting a Restaurant

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TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	(1)
LEGAL CONSIDERATIONS	1
RESTAURANT PROFILE	2
FRANCHISES	5
SITE LOCATION	6
MENU PREPARATION	9
PRICING	10
LAYOUT AND DESIGN	12
KITCHEN LAYOUT AND DESIGN	15
INVENTORY CONTROL	16
FOOD CONTROL SYSTEM	19
ADVERTISING AND PUBLIC RELATIONS	22
PERSONNEL	23
FINANCIAL PLANNING	24
STEP I: Determine Capital Cost Expenditures	24
STEP II: Determine Operating Costs	26
STEP III: Develop Financial Information for "Sourcing" of Fund and Control	28
Cash Flow Analysis	30
Cash Budget	31
Canadian Restaurant Operational Report	34
Balance Sheet	35
FINANCIAL RECORDS	36
SUMMARY	37
EXHIBIT I: OPERATING RATIOS	
For Licenced/Unlicenced Restaurants in Manitoba	39
EXHIBIT II: OPERATING RATIOS	
For Take Out Food Services for Manitoba	40

INTRODUCTION

Today, the nature of the restaurant business is changing. With the advent of the two income family, less time and greater income has led to an increase in the consumption of prepared foods. Currently, one out of every three food dollars is spent on restaurant prepared food. However, this amount is on the increase. Statistics Canada predicts that by 1990 one out of every two food dollars will be spent on restaurant prepared food. The largest increase in consumer expenditure has occurred in the take-out business. In the last three years take-out has increased 14-18% per year and this increase is expected to continue.

Another source of increasing revenue for a restaurant owner is through Tourism. It is estimated that 23 cents out of every Tourist dollar is spent on food. Therefore as Tourism increases in our Province, so does a restaurant owner's potential market. (Travel Intensity Index 1984 Stats Canada Catalogue #87-504)

However, even with all this positive information, the restaurant business still remains one of the most competitive industries in Canada. It is still estimated that eight out of every ten new operations fail within the first 3 years. The decision to begin in the restaurant business requires careful planning and extensive knowledge of who your target market consists of as well as dedication required to make your restaurant successful. The work days are long, often ten to fifteen hours. To be successful, the prospective owner requires a thorough knowledge of food preparation and service, as well as marketing and management skills. Expertise must be developed in controlling costs, purchasing, public relations, promotion, inventory control, and personnel administration.

The key to the success of a business is you, the owner/manager. Once you have assessed what is required to properly set up the operation, developed a workable business plan, and finally have the business ready to go, the next step is to open the doors. But remember, ongoing evaluation and the ability to adjust quickly to the changing business environment will ensure that the business remains profitable.

(11)

Should you require further assistance, Manitoba Industry, Trade & Tourism has a broad range of services available to assist small businesses. If we can be of further help, please do not hesitate to contact:

Business Resource Centre
6th Floor - 155 Carlton
Winnipeg, Manitoba
R3C 3H8

Phone: 945-7738
Toll free in Manitoba 1-800-282-8069

Western Regional Office
Box 1300
231 - 10th Street
Brandon, Manitoba
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LEGAL CONSIDERATIONS

Restaurants are governed by federal, provincial and municipal government regulations. Health and fire regulations, liquor control regulations, local building codes, and employee regulations are among the most important ones. Becoming totally familiar with all the requirements is essential in the initial planning and development stages. The regulations determine if a location can meet specified standards, and for this reason, it is important to familiarize yourself with these standards prior to purchasing or leasing a particular location.

Advice and general information on basic lease requirements can be obtained by contacting your nearest Business Resource Centre and requesting a copy of "Starting a Small Business in Manitoba".

One of the decisions which you will have to make once you decide to start your business is the form of organization under which you want to operate. Basically, there are four types of business organizations from which you can choose:

- sole proprietorship
- partnership
- corporation
- co-operative

In deciding which form is most appropriate to your business, the following factors should be considered:

- ease of organization
- the life expectancy of the business
- financing and management problems
- liability for debts of the business
- taxation regulations

You should also seek the advice of your lawyer and accountant in determining which form of business organization best suits your needs.

Regarding insurance, determine your needs before you open your restaurant. The major types of insurance to be considered are:

- (i) General Insurance - on assets of the business, liability insurance on the premises and vehicles, fire insurance, crime coverage, and business interruption insurance.
- (ii) Life Insurance - on the lives of owners. Partners often purchase insurance on each other's lives in order to ensure continuance of the business.
- (iii) Product Liability - protection against lawsuits which claim damage due to the food or beverages served.

Information and advice on these matters can be obtained by contacting your nearest Business Resource Centre.

- (iv) Worker's Compensation - required by Manitoba law to reimburse employees (injured on the job) for loss of wages.

RESTAURANT PROFILE

It is important in the early stages of your planning to consider the various types of restaurants, and to determine which concept best suits your location, market area, practical experience, and financial resources.

The following descriptions provide a general profile as to the various types of restaurants:

(i) Traditional

This type of restaurant is characterized by a lengthy menu appealing to a variety of patrons. It attempts to cater to almost everyone, therefore, the manager requires an extensive knowledge of food preparation. Because of the large number of items on the menu, inventory control and table service are especially important. The

average meal costs \$10 to \$15. For these reasons, traditional restaurants, though they can be successful in tourist areas, are declining in popularity.

(ii) Ethnic

Menus here highlight an ethnic group or a particular region or country, so the market is much more limited. Success depends on the expertise of the cook and the establishment of personal service relationships with customers. Ethnic restaurants are often located in urban centres because of the willingness of, for example, young professionals to sample different dishes. The average meal costs between \$6 and \$11.

(iii) Specialty

These restaurants concentrate on a variation of one dish or food type. They are most successful in urban centres where they are accessible to tourists, convention delegates, local residents, and the business community. A reputation for good food and service, merchandising, and decor will enhance the prospects of repeat business. This type of operation is definitely not for the novice operator. Experience is needed in related areas or with other types of restaurants. The average meal costs between \$8 and \$15.

(iv) Coffee Shop

The menu here is a wide variety of dishes of non-descript nature. Customers require quick service and the dishes must lend themselves to pre-preparation. This leads to high labor costs, combined with a high patron turnover. The average meal costs between \$3 and \$6, and any location that has a large traffic flow is ideal.

(v) Fast Food*

Because of franchising, fast food restaurants grew rapidly in the sixties and seventies. However, with most urban centres full

* See operating expenses Appendix II

exploited, the best market potential is now in resort areas. Customers expect a limited menu, usually hamburgers, hot dogs, and french fries. This type of operation quickly lends itself to the novice, for it requires a relatively low capital investment and the operator need only have limited experience. Average meal cost is \$3.50 to \$4.50. Since low prices are a major marketing feature, there is a challenge for management to keep prices down during inflationary periods.

(vi) Cafeteria

Food in cafeterias range from pre-cooked hot dishes to an assortment of cold plates. Most patrons are impulse customers, or people working in the vicinity, so there should be a large transient population to draw from. The manager must be skilled in the preparation of simple dishes and must maintain close control over labor costs. Average meal cost is \$3.00 to \$5.00.

(vii) Self-serve

Customers here can either take the food out or eat it at a table. The number of items is limited; all customer utensils are disposable; and staff requirements are small. Self serve restaurants are not large, but customer volume is generally high due to the rapid turnover of patrons. The location, the appeal of the food, and the efficiency of the operation are critical. Low initial capital outlays and payroll requirements make self-serve restaurants the easiest for the novice. Average meal cost is \$3.50 to \$4.00.

The various restaurant concepts mentioned in this section show the wide variety of possibilities for successful food service management. When making your choice, it is important to remember that any food offering can be varied. There is no single or magic formula you can adhere to, but a selection must be made carefully, based on who your customers are, where you plan to locate, and the direct costs associated with the start-up of the restaurant.

FRANCHISES

If you are considering purchasing a franchised operation, investigate the potential franchise carefully. It will not only protect you from fraud, but also from misconceptions and unrealistic expectations. (The franchisor will investigate you, so be prepared to answer extensive questions regarding your assets, personal life, experience, and background.)

Consider the following:

The franchise agreement - It legally binds the franchisor and the franchisee together, so be sure that everything verbally agreed to is written in the agreement and verified by a lawyer.

The franchisor - Your success will depend on him. He may be honest, but he may also be incompetent. His side of the agreement will include the responsibility of competitive marketing and advertising, combined with sound money management. He must have sufficient capital while properly providing you with expertise, training, sources of supply, and business procedures and policies. In other words, is the franchisor financially solid, with a good reputation and credit rating? Don't be fooled by what may appear to be an upstanding operation.

The franchise system - Find out if you are part of a master franchise or simply have a direct one-to-one relationship with the franchisor. In a master franchise, a franchisee can appoint sub-franchises within a certain area. He, as "master", is fully responsible for all masters under him. Be aware that the risks of a master going under are great if his sub-franchises are not satisfied with him, even though the rest of the franchise operation may be very successful under the main franchisor. Another risk to consider is that the master may decide to break away from the main franchise at some later time. A one-to-one relationship is usually a safer form of franchise arrangement.

The business plan - This is the sequence of events that the business is intending to follow. It will include the general organization and marketing procedures, with costs and timing included for control purposes. Examine its viability as though you were buying the business outright. Does the product or service have potential for the particular area in which you want to market it? Examine the responsibilities of training staff, dealing with suppliers, answering to creditors, and satisfying customers.

The costs - Do you know exactly how much and for what you are paying? Are the responsibilities for all payments clearly stated in the franchise agreement? Are you paying for a name, and are you aware that goodwill can be lost through a change of name or through the poor performance of other franchise units?

The work environment - Can you work as an owner/manager under the guidance and direction of the central franchise operation? Are you aware that franchise outlets must be uniform and that there is very little room for flexibility?

The sales pitch - Are you being rushed? Don't let threats of "others being interested" force you to jump in too soon. A reputable operation will expect you to take your time. Keep in touch with a lawyer and an accountant so they can advise you at all times.

The Business Resource Centre has developed a free publication "Manitoba Franchise Guide" to assist you in making these decisions.

SITE LOCATION

Once you have selected the restaurant type, you must consider the site location. Choosing this may be the single most important decision the would-be restaurateur makes. Among the most important factors to consider are:

Cost - When considering the option of leasing a facility there are a number of questions which you should be asking yourself. Can you

business support the rent costs? Is there sufficient sales volume in that particular location to sustain the operation? Remember, your business must have the financial ability to support the overhead costs of rent, heat, electricity and taxes in the particular premises. Lease payments can range from a flat rental fee to, in some instances, a percentage of gross sales. The amount charged generally depends on a number of factors, including the location, and available equipment. The condition of any equipment should be inspected, and its usefulness thoroughly examined. Of course, another means of starting up in the restaurant already operating with a good reputation, well-equipped and well-established, obviously can provide you with a sound base upon which to build. However, take the time and effort to carefully examine all the facilities and all related financial statements. The time and effort you take could save you the trouble of having to buy someone else's mistakes. To ensure your interests are protected, it is advisable to consult a lawyer before signing any lease purchase documents.

Accessibility - Before deciding on a site, you should determine the pedestrian and automobile traffic during the day, the destinations of passersby, and the types of business and plans for growth in the area. If the business is located on a busy street, is there easy access to cross the street or does the customer have to drive around the block. Especially in a fast food restaurant, difficulty in crossing the street can be a deterrent. The availability of public transportation and easy access to the facility is the key to attracting clientele.

Parking - Check the availability of parking. Many customers will drive automobiles and will prefer to park nearby. Walking a distance can be a negative influence.

Neighbourhood - The surroundings will either enhance or detract from your restaurant's image. For example, locating an Italian food restaurant in a predominantly Italian neighbourhood will likely encourage patronage from within the neighbourhood as well as attracting customers from surrounding areas.

Competition - Know your competition - their capacities, hours of operation, and as a group, might even have the potential to draw customers into the region. However, carefully assess the ability of the area to support another restaurant. The uniqueness, quality of food, and service of your operation may determine its success.

Regulations - Restaurants have a number of regulations and requirements that must be met before you can begin operating. Listed are a number of requirements that must be implemented. Check with the "Starting a Small Business in Manitoba" guide to obtain addresses for various Licencing departments.

- building codes
- safety and fire regulations
- provincial and federal regulations
- emergency requirements
- handicap requirements
- parking requirements
- sanitation requirements
- seating requirements

Speaking more broadly, a thorough knowledge of the current business environment is critical to the success of any business. National population trends assure a steady supply of potential customers: in 1985 the largest segment of the nation's population will be the 25 to 44 year old group. Mobile, affluent, used to eating out, they have already become accustomed to spending their food dollars in a competitive atmosphere that fosters selectivity.

A number of "tools" are available to help you in this marketing research. The Chamber of Commerce can provide data on community characteristics, while demographic statistics for Manitoba are available from the Business Resource Centre.* Traffic counts for major streets are available from the City of Winnipeg, to help assess your potential market. Also, entertainment guides, the Yellow pages and local newspapers will be able to provide restaurant profiles.

*Source: Statistics Canada - Small Business Profiles - See Appendix I & II

Using these research tools will help you assess the competition, the population, and the business climate of an area. This information will provide guidelines in selection, not only of your location but also of the type of restaurant which would succeed in your chosen location.

MENU PREPARATION

Your menu is the key link between you and your customers. Therefore, know who your customers are, what food preferences they have, and how they like their choices prepared. As you develop your menu, always remember to whom you are catering. Your menu should:

- stimulate the customer's appetite and imagination
- cater to the taste preferences of your clientele
- maintain stable cost average
- offer a good variety of dishes
- maintain a balance between low and high cost items
(taking into consideration their popularity)
- provide you with a guide for ordering, purchasing and estimating
income
- set the tone of your restaurant

Your menu can also be used to reinforce the image of your restaurant by becoming a conversation piece. For example, it might describe different parts of the world, recall the history of the area, or be designed in some other manner to help stimulate conversation and discussion.

As well, the current fitness craze and the desire to be slim may also be a factor in the selection of your menu. For example, recently Wendy's introduced a "lite menu" in an attempt to reach this section of the market. If, for instance, you planned to open up a lunching restaurant catering to office staff, you may want to seriously consider a "calorie consciousness" menu.

A successful restaurant's menu is not an accident, but a result of careful planning.

PRICING

The price of a particular item depends on a number of variables. The price listed on the menu is a combination of what the food costs, and what is needed in order to meet expenses and realize a profit. As a rule of thumb, the price of an item is generally three times the food costs. The example on the next page illustrates this way of pricing. Besides the food costs, the price will also depend on the type of operation, the atmosphere, operating expenses, and competitors' prices.

Since menu variety affects your profitability, you must maintain a balance between low cost and high cost menu items, as well as those having different degrees of popularity. You must maintain the desired overall food cost percentage and the normal margin of profit. Prices should remain within a distinct range so that your pricing policy is consistent with the rest of your strategy.

In developing the price for items on your menu there will be temptation to multiply the cost of an item with a constant cost factor to obtain the selling price. With certain items, such a method would result in prohibitively high prices. Therefore, higher cost items tagged with lower markup can be counterbalanced by higher markups on lower cost items. But to develop a particular pricing policy, you need an estimate of sales. Only then can low gross profit items be counterbalanced by high gross profit items to obtain a predetermined profit.

For example,

One Dinner Serving

Entree			
	8 oz. fillet (at \$3.65 per lb.)	\$1.83	
	Mushrooms	<u>.35</u>	\$2.18
Other items			
	Soup	\$.20	
	Salad	.75	
	Mashed potatoes	.10	
	Carrots	.25	
	Rolls	<u>.15</u>	\$1.45
Total Cost per Serving			<u>\$3.63</u>
Menu Price: \$10.00 to \$12.00			

Using a "three times the cost" break, you can arrive at a selling price of:

$$\$3.63 \times 3 = \$10.89 = \text{menu price}$$

The food cost, which you must now calculate for each and every item on the menu, will tell you what percentage of the menu price is spent solely on purchasing and preparing the food.

Industry sources indicate that the food cost can range from 35% to 40% of gross sales.

By carefully costing all the items, you will be able to ensure all costs are met. It should be pointed out that high volume or high demand items should be carefully monitored, as they are the items which will, in the long run, determine the success of your operation.

Equipment

Depending upon the nature of your restaurant, your equipment needs will vary. However, regardless of the type of equipment needed, buying equipment can be quite costly. Basically, when acquiring equipment you have three options; each have their pros and cons.

1. Purchase all new equipment.

Pro's - you are able to purchase the type of equipment you want. Your equipment will be under warranty.

Con's - it's expensive -- large initial capital outlay.

2. Purchase used equipment.

Pro's - initial capital outlay is less.

Con's - used equipment is prone to breakdowns and costly repairs.

3. Leasing equipment.

Pro's - small initial outlay good for business without a large amount of capital.

Con's -- you don't own the equipment, you don't own them as assets.

LAYOUT AND DESIGN

The exterior of an eating place should try to attract the attention of potential customers and lure them into the restaurant. The use of tasteful lettering and colour can send out a message to passersby, and convey to them the character of the restaurant. And while the exterior conveys the character of the restaurant, the interior sets the mood. It also determines the traffic flow for patrons and staff, so in designing the interior, make sure that space is allocated for the following:

- a waiting area when there are no tables available
- enough space for staff to serve your customers
- room in which your clientele can comfortably eat
- cashier's station
- public rest rooms
- bar* (if applicable)

There are a number of important principles to follow when developing the interior layout. The dining room should be designed to provide a view of the entire room from one or more vantage points, so that your staff can address themselves to any requests that might arise quickly. Also, various lighting designs should be assessed to make sure that the mood you wish to convey is captured. Walls should be used as light reflectors to enhance the mood, rather than be focal points or display units. But the lighting must not sacrifice safety for mood. Signs should be legible at all times of the day to ensure the customers' safety, and areas should be free of obstacles.

Surveys indicate that:

- 50% of all customers come in pairs
- 30% come alone or in groups of three
- 20% arrive in groups of four or more

* All businesses involved in the serving of liquor must conform to certain specifications with regard to design and operation. Businesses considering such operations are strongly advised to contact the Liquor Control Commission for full information before renting, buying, building or remodelling.

Therefore, in designing the interior, make sure that these various combinations can be accommodated. Also make sure that each customer has adequate space for comfortable dining.

The following are suggested square footage requirements for certain restaurant types. In a traditional restaurant, 10 to 20 square feet are allocated per chair; in a cafeteria, 10 to 12 square feet; while in a coffee shop, between 7 and 17 square feet have been found to be adequate.

Calculating your seating capacity will provide you with valuable information in terms of determining maximum potential of the restaurant, as well as determining your break-even point. The following is a step-by-step approach:

1. Determine desired profit. Convert to percentage of sales to get Sales Required.
2. Determine number of operating days. Divide into Sales to get Average Daily Sales.
3. Estimate volume percentages for meal periods.
4. Multiply figures in (3) by average sale per day to get dollar volume per period.
5. Determine average check per meal period.
6. Divide dollar volumes in (4) by average check. This will give you the number of patrons per period.
7. Estimate a) average seat occupation per meal period, and b) time per meal period.
8. Divide time per period by average occupation to get turnover of seats per period.

9. Divide possible seat turnover into number of patrons to get number of seats required per period.
10. Take the largest seating requirement in (9) and add a 20% safety margin to get the seating capacity.

The following example will illustrate the process:

1.	a) Desired Profit			\$15,000
	b) Net Profit Percentage			10%
	c) Required Sales to Achieve Desired Profit			150,000
2.	a) Number of Operating Days			300
	b) Average Sales per Day			\$500
		<u>Breakfast</u>	<u>Lunch</u>	<u>Dinner</u>
3.	Percentage Volume Anticipated	20%	40%	40%
4.	Dollar Volume Each Meal Period	\$100	\$200	\$200
5.	Average Check	\$3	\$5	\$20
6.	Number of Patrons	33	40	10
7.	a) Number of Minutes Seats Occupied	30	60	90
	b) Length of Meal Period in Minutes	120	120	180
8.	Possible Seat Turnover	4	2	2
9.	Number of Seats Required During Meal Period	8	20	5
10.	Number of Seats Required With 20% Safety Margin		24	

With 24 seats, this establishment would require between 240 and 480 square feet in the eating area. In addition, 12 of the seats should be for couples, 8 for single or groups of three, and the remaining seats for larger groups.

It is important to remember that by carefully planning your layout and seating capacity, you can monitor the costs as they arise in relation to your projection.

KITCHEN LAYOUT AND DESIGN

The kitchen determines your staff's working environment, so it too must be planned carefully. In designing the kitchen layout, the following goals should be met:

1. Provide functional self-sufficiency for each area.
2. Provide safety in kitchen traffic patterns.
3. Provide optimal interaction between the key staff roles:
 - chef to server
 - chef to dishwasher
 - chef to assistants
 - server to dishwasher
 - server to busperson
4. Efficient food preparation with shortest path for most common routes.
5. Ease of cleaning and maintenance.
6. Convenient unloading and delivery reception areas.
7. Proper ventilation and lighting.

Finally, since food is prepared in this area, the following functions should be accounted for:

1. pre-meal preparation
2. dessert preparation
3. side-dish assembly
4. cold storage
5. cold table (sandwich table)
6. dishwashing
7. meal assembly
8. specialized food preparation (deep frying, barbecuing, etc.)
9. dry storage
10. employees' personal items area
11. delivery reception and unloading

By planning with your employees in mind you can help create a positive environment which could result in a successful and lasting working relationship.

INVENTORY CONTROL

Good inventory begins with comparative shopping and continues until the meal is prepared. Since inventory represents tied-up capital, it is important that all items be accounted for. A number of inventory control systems can help maintain inventory levels.

Calculation of inventory costs is an easy and worthwhile exercise, for it helps determine what particular meals are costing to prepare. To determine current inventory costs, add on new food purchases to the cost of the beginning inventory, that is, the last recorded total. To calculate the cost of food sold, subtract the current amount in inventory from the last determined cost of inventory. By totalling what each meal cost, you can determine whether the prices need changing, or if certain items should be deleted from the menu.

There are a number of ways to control food costs. One means is to set up a food cost accounting system, or portion control, where a meal is broken down into its various components to determine the price of each item. Potential problems due to price fluctuations can then be discovered and remedial action taken.

The easiest means of maintaining beverage control is to record the number of bottles on hand every day. Use a control sheet for each item, and as new purchases are delivered, record the number by brand name, adding it to the remaining total. As an item is taken, subtract the amount from the total. By carefully recording deliveries and usage, you can monitor the inventory levels and minimize the inventory costs.

Another aid is the establishment of an efficient purchasing procedure, where standard purchasing specifications are developed to help the vendor in shipping correct quantities. The use of competitive bidding from multiple sources should be used, and all orders should be placed in advance to ensure punctual delivery. Using the following checklist, make sure the supplier knows and understands exactly what product or service you expect:

1. Brand name desired
2. Size
3. Quality
4. Grade or weight
5. Delivery time and place
6. Policy on following substitutes for back-ordered items
7. Emergency deliveries
8. Availability
9. Policy on damaged goods

A receiving procedure should be established to ensure that deliveries correspond to the orders. As items are delivered, check the delivery with the invoice and record any discrepancies on the invoice. Allow only authorized personnel to sign for deliveries, and make sure the correct weights, quantity and quality were delivered. List all items to allow for comparison over a period of time. Refrigerate items requiring it immediately.

Establish procedures for storing food.

In order to maintain control and keep cost low, it is vital to have proper food storage conditions. With 35-40% of your gross profit being food costs, it's good business sense to ensure that your food is protected from theft and is kept in the best possible condition. According to the Manitoba Restaurant and Food Services Association, there are three main forms of storage with guidelines to follow.

1. Dry Storage - stores canned goods, flour, cereal, spices and sugar, etc. The dry storage area should range in temperature between 50°F and 70°F (10°C-21°C). It should be well ventilated and dry as this discourages transfer of odors. As well, direct exposure of sun should be eliminated as it can cause changes in the color of chocolate and spices.
2. Frozen Storage - temperature control is the major preserving factor in frozen foods. Temperatures should remain constant at approximately -18°C (0°F) or less. Foods should be kept in moisture-proof material to prevent freezer burn.

3. Refridgerated Storage - refridgeration helps to prolong the life of perishable items. If possible, separate refridgerators should be used. One for dairy food and vegetables and another for raw meat and poultry. Prepared foods must be stored above raw food to avoid contamination.

Food preparation should be standardized.

When establishing standards for your portions, here are a few helpful hints:

- prepare a plate, have it photographed in order to show what different entrees are supposed to look like.
- prepare written instructions for the staff and post them where they are easily visible.

By establishing effective portion control, you are:

- creating more efficiency in the purchasing department as it is easier to determine the exact quantities to be ordered.
- you can control the amount wasted caused by portions too large for your customer to finish.
- creating a a consistent meal with respect to size and looks.

It should be noted that as the number of items increase, it becomes more difficult to establish effective portion control.

Rotate the stock.

The basic rule is what comes in first should be used first. By taking the time to establish inventory policies, you can keep the costs down as well as prepare a tasty meal for your customers.

Recipe reference file.

Listing in alphabetical order the dishes frequently served, the number of portions, and the amount of supplies needed.

1. Elements of a Food Control System.

Purchasing, receiving, storage and issuing of food are the first steps in the flow of costs. When these basic procedures are properly performed, a good foundation will be laid for the production of quality food at a minimum cost.

a) Food Purchasing

The main objective in the purchasing of food is to obtain the best possible product (as per established specifications), at the lowest possible price. The requirements for effective purchasing are a qualified purchaser, purchase specifications and proper buying methods and procedures. The qualified purchaser has a good knowledge of the items required, knows what merchandise to buy at different times of the year, is familiar with the quality of items needed as per detailed recipe cards and will buy effectively, by comparing price, quantity and quality from available suppliers. It is common practice to compare different suppliers at regular intervals (weekly). In order to maintain effective purchasing standards, the enclosed purchasing and receiving control form should be used for all food items ordered and compared with actual deliveries.

b) Food Receiving

The main objective in receiving food is to ensure that the ordered supplies have the quality and quantity at the quoted prices. The food Purchasing and Receiving Control Form has a quantity received column which should be identical to the quantity ordered. The comments column on the Purchasing and Receiving Control Form should be used for any discrepancies between goods ordered and goods received. This form serves the buying and receiving function and will simplify the otherwise difficult receiving procedures. When properly used, it will show short shipments, price variations and weight differences. The completed form combined with packing slips and invoices should be returned to the Food and Beverage Manager's Office where it will be checked further.

2. Food Cost Calculations.

The purpose of food cost calculations is to determine the actual cost of food consumed and the actual cost of food sold. This calculation should be done on a monthly basis. The basic formula for calculating the monthly actual food cost is a combination of opening inventories, purchases, adjustments and closing inventories.

Example: Food cost calculations for the month ending May 30,

Opening food inventory, May 1		\$ 4,000
Add food purchases for May		<u>12,500</u>
		16,500
Deduct food inventory, May 31		<u>4,125</u>
Total cost of food consumed in May		12,375
Deduct:		
Employee meals	\$1,200	
Food transferred to lounge	<u>125</u>	<u>1,325</u>
Total food credits		11,050
Add beverages transferred to kitchen		<u>50</u>
Total Cost of Food Sold		<u>\$11,100</u>

The opening food inventory for May 1 is the same as the closing inventory for the previous month, April.

In order for these figures to be meaningful, it is advised that the month-end inventory is taken after business hours on the last day of the month. The inventory should include all consumable food items on hand.

The pricing, additions and extensions of the inventory should be carefully checked, as any error in the inventory will effect the cost figures for the current month and the coming month.

Employee meals and food and beverage transfers should be reviewed carefully and should be included at their cost price. Food transfers to the lounge, such as snacks, nuts and ingredients used in the bar are deducted

from the cost of food figure. Employee meals, when sold at cost to the staff members, are also deducted from the cost of food consumed. The cost of beverages used in the kitchen (cooking wines and others) are added to the cost of food sold.

In order to evaluate the efficiency of the food operation, we have to compare the standard or budgeted food cost with the actual food cost.

Note: the following is a sample of the Food Cost Calculation Form.

FOOD COST CALCULATION FORM		MONTH:
Taken by _____		DATE:
Opening Inventory (Date: _____)	)	\$ _____
ADD: Purchases for (Date: _____)	)	_____

SUB:		\$ _____
DEDUCT: Closing inventory (Date: _____)	)	_____

TOTAL: Cost of food consumed		\$ _____
DEDUCT: Employee meals	\$ _____	
Food transferred	\$ _____	
Total food credits		\$ _____
ADD: Beverages transferred to kitchen		\$ _____

TOTAL COST OF FOOD SOLD		\$ _____

NOTE: A) Opening inventory equals previous month closing inventory.
B) Closing inventory equals last day of present month inventory.

ADVERTISING AND PUBLIC RELATIONS

With the restaurant industry being so competitive, advertising could account for attracting a large portion of your clientele. In order for your advertising to be successful, you must know your market, its size and its lifestyle. Today, the largest consumer group consists of the baby-boomers. They account for almost 7 million Canadians born between 1950-1964. Within the next 10 years they will be gravitating towards their peak earning power. As well as becoming affluent, they lead an active lifestyle and frequently eat out. Unfortunately, this large group of our population are considered (1) to be hard to please, fickle and demanding consultants (2) understanding and capturing their buying dollar could create quite a challenge.

One of the most successful forms of advertising for a restaurant is word of mouth. Word of mouth advertising cannot be bought, it can only be relayed by a satisfied customer. By successfully meeting your target market expectations, you will most likely be the beneficiary of some word of mouth advertising.

Word of mouth advertising alone can not sustain a business. You must always use some form of media advertising to maintain current customers and recruit new ones. Depending upon the type of market you are catering to, your advertising needs will vary. Forms of advertising include: television, radio, newspaper, mail drops and the yellow pages.

Newspapers provide a good deal of flexibility as well as a low cost, and advertisements can be placed in almost any section. For particular holidays, ads can be placed in the entertainment section to promote business during these competitive periods. In addition, special promotional deals can be stressed, and most newspapers provide staff to assist you with layout. Of course, favorable reviews by food critics would greatly enhance your reputation.

Another effective form of advertising involves flyers. If you are catering to a specific market, you should consider using flyers to ensure that you reach your target market. For instance, if the tourist industry is your

target market, you should deposit your flyers in areas where tourists are most likely to visit. Examples include:

- tourist attractions
- hotels and campgrounds
- recreation areas
- shopping areas
- parking lots
- tourism information booths
- travel agents and promoters
- airports, bus station
- car rentals

While advertising can be fairly costly, good public relations is the least expensive and often the most effective form of promotion. So be honest with your customers, creditors and staff; and if problems do arise, give the other party the benefit of the doubt. And remember, your customer does come first.

PERSONNEL

The restaurant business is a people business, and the way you deal with these people could determine your success.

Firstly, expect high turnover in all positions. Detractors will say the work is demeaning and wages low, but don't despair! You can minimize the problem by taking a sincere personal interest in your employees; the fact that you took the time to listen will help promote staff loyalty, and by helping your employees, you will be providing them with an example to help one another. Secondly, do not neglect staff training and upgrading. Many employers avoid this area, fearing that once taught, employees will simply up and leave. But if you develop your employees to their fullest potential, you will have gained better workers, and as your business grows, you may be able to groom them for more responsible positions. Do not be afraid to delegate some responsibility, to show trust and confidence in your employees. Not only will your time be freed to pursue more important and pressing areas, but your employees will feel more important.

In hiring staff there are two key positions: the chef and the cashier.

Each has a direct influence on customer satisfaction and, ultimately, they can make or break your establishment. Although there are no set guidelines for hiring staff, there are some rules of thumb. In the restaurant business, you should be neat, well-groomed, and polite, and all workers should be placed on a probationary period until initial impressions are confirmed.

Efficient, well-trained, and pleasant personnel are an asset in any business. In the restaurant business, where employees are dealing with the public, they are not only an asset, but a vital link between you and your customer. Their attitude, how they serve customers, and their relationships with you can be important deciding factors in whether or not you will have a successful operation. Therefore, select them carefully.

FINANCIAL PLANNING

According to Dun and Bradstreet, a business information company, the number of small business bankruptcies is increasing, to a large extent because of lack of basic financial planning. The following outline is a means of systematically planning short-term and long-term capital needs.

STEP I

Determine Capital Cost Expenditures

Capital costs are defined as "one time" expenditures required to establish the operation. The following form lists potential capital costs, such as leasehold improvements, fixtures and equipment. It is important that it be accurately and carefully filled out, as missing or inaccurate recordings may create financial difficulties at a later stage.

A. Capital Cost Expenditures

<u>Item Description</u>	<u>Estimated Cost</u>
1. Land	
2. Building	
3. Improvements	
a) Mechanical	
b) Electrical	
c) Plumbing & heating	
d) Flooring	
e) Printing & decorating	
f) Exterior sign	
g) Miscellaneous costs	
4. Fixtures	
a) Counters	
b) Shelves	
c) Warehouse of shipping areas	
d) Tables/chairs	
e) China	
f) Stainless steel flatware	
g) Glasses	
h) Freestanding range	
i) Burner/griddle combination	
j) Microwave oven	
k) Electric fryers (counter)	
l) Refrigerators	
- Undercounter	
- Reach-in	
m) Freezers	
n) Dishwasher	
- Automatic, freestanding	
o) Miscellaneous	
5. Office Equipment	
a) Desks & chairs	
b) Filing cabinets	
c) Adding machines	
d) Cash register	
e) Miscellaneous	
6. Other Equipment	
a) Cars & trucks if required	
7. Working Capital	
a) Pre-opening	
- Lease deposit	
- Insurance premium	
- Professional services (accounting, legal)	

- b) Start-up (initial 4 to 6 period)
 - Inventory
 - Wages/salaries
 - Utilities
 - Miscellaneous

i Sales traditionally develop slowly during the initial start-up period and sufficient capital must be available to cover operating expenses which will be incurred.

ii Food inventory fits into three categories: fresh food, processed (frozen, canned packaged) products, and dry goods. Unless the operator can find a somewhat centralized source of supply, individual distributors must be located for specialty goods as well as for the following standard items:

Beef	Coffee	Bakery goods
Poultry	Soft drinks	Fresh produce
Seafood	Dairy products	Ice cream
Other meats	Eggs	Frozen entrees
Liquor, wine and beer (where applicable)	Paper goods	Frozen vegetables

By contacting local distributors, you will be able to calculate your initial inventory requirements.

STEP II

Determine Operating Costs

Having carefully determined the capital investment requirements, the next step is to determine the operating costs. Operating costs are those expenses incurred on a regular basis, whether the time frame be daily, monthly, or yearly. The wages of regular staff and part-time help, the telephone bill, and the insurance premium are all examples of operating costs. Following is a monthly operating costs form where the costs have been broken down in administrative and marketing expenses to simplify the analytical process.

Note that although some of the expenses may be only incurred on a yearly basis, they should be broken down into a monthly average to ensure that the required funds are accumulated.

Operating Cost Expenditures

A. Administrative Expenses

<u>Item</u>	<u>Description</u>	<u>Yearly Costs</u>	<u>Average Monthly Costs</u>
1	Rent		
2	Owner's Salary		
3	Office Salaries		
4	Clerk Salaries		
5	Utilities (heat, light, water)		
6	Maintenance		
7	Freight (in/out)		
8	Telephone		
9	Bank Charges		
10	Accounting and Legal Fees		
11	Business Taxes		
12	Insurance		
13	Office and Stationery Supplies		
14	Car/Truck Expenses		
15	Canada Pension Plan Contributions		
16	Unemployment Insurance Contributions		
17	Worker's Compensation		
18	Administrative Travel		
19	Interest Costs		
20	Miscellaneous		
		\$ _____	\$ _____

In addition to the administrative expenses, estimate the costs associated with sales and marketing.

B. Marketing Expenses

1. Advertising
 - a) Newspapers
 - b) Handbills or flyers
 - c) Signs (in store)
 - d) Yellow Pages
 - e) Radio
 - f) T.V.
2. Travel or Car Expenses
3. General Promotional Expenses
4. Miscellaneous

Having developed a list of all the operating costs, (remember to include interest and debt repayment), you should determine what sales volume is required to cover all the costs and still leave you with a profit. For example, if you anticipate the first year operating costs to be \$50,000, what volume of sales will you need to cover the operating costs and still leave you with a profit of \$5,000? Assuming that 35% of sales is the cost of goods, you will need:

$$\text{Sales} = \text{Cost of Goods Sold} + \text{Operating Costs} + \text{Profit}$$

$$\begin{aligned} &5,000 \text{ (Profit)} + \$50,000 \text{ (Operating Costs)} \\ &+ (.35 \times \text{Sales}) \text{ (Cost of Goods Sold)} = \text{Sales} \end{aligned}$$

$$5,000 + \$50,000 = \text{Sales} - .35 \text{ Sales}$$

$$55,000 = .65 \text{ Sales}$$

$$\text{Sales} = \underline{55,000}$$

$$.65$$

$$= \$100,000 \text{ of Sales}$$

Having determined what sales volume is required to cover all the costs and still leave you a profit, assess the sales potential of your proposed location. If the analysis determines that you can reach the sales objective, then carry on! However, remember to make a hard and objective assessment of the trading area. It can save you problems in the future.

STEP III

Develop Financial Information for "Sourcing" of Funds and Control

Having determined the capital costs and the operating costs, the next step is finding sources for funds to cover these costs. In the long run, your sales must cover your operating expenses in order for your business to be successful. During the first months of operation, however, you may need outside assistance to meet your capital costs obligations and to help stabilize your finances. Most financial sources will require that you provide a good portion of the necessary capital. In addition, financial

institutions will require a copy of the following information: capital costs, operating costs, cash flow analysis (usually over a 3 year period), projected profit and loss statement, and projected balance sheet.

The capital and operating cost information has been developed earlier. The next, and possibly most important step is to project a cash flow analysis. The cash flow analysis is a means of determining whether your business has a need for short-term cash or if it has an excess of funds. To suit the needs of the manager/owner, the cash flow analysis can be developed on a weekly, bi-weekly, or monthly basis. It is a tabulation of the actual cash received each period and the actual cash spent.

What this analysis allows you to do is project expected surpluses and deficits and take the appropriate actions. Also, the cash flow analysis allows you to judge your position relative to previous periods and to anticipate potential financial problems or opportunities.

On the following page is a cash flow worksheet. Determine your monthly CASH IN and CASH OUT.

Monthly Working Cash Flow

	<u>Month 1</u>	<u>Month 2</u>	<u>Month 3</u>
<u>INCOME (Cash Only)</u>			
Cash sales			
Received on accounts			
Other income			
TOTAL CASH IN			
<u>EXPENSES (Cash Only)</u>			
Suppliers-materials			
Direct labour			
Salaries (owner)			
Rent			
Bank and loan charges			
Freight (in-out)			
Car-truck expenses			
Advertising			
Sales expenses			
Telephone			
Utilities (heat, light, water)			
Office expenses			
Legal and audit			
Rental equipment			
Business tax			
Canada Pension Plan Contributions			
Unemployment Insurance Contributions			
Worker's Compensation			
Other expenses			
TOTAL CASH OUT			
<u>CASH EARNINGS</u> -- Surplus (or Loss)			
Cash - start of month			
Cash - end of month			
<u>CONTROL ITEMS</u>			
Receivables or charges			
Payables due Suppliers			
Payables due Others			
Bank loans			
Mortgage or Equipment Loans			
Inventories (Estimated)			

CASH BUDGET

By maintaining a cash flow analysis, you will be able to get a clear picture of your business and whether there is sufficient operating capital. There is no substitute for a "liquid", or cash position, and if there isn't enough working money set aside to pay current bills, your business may fall into a "cash crisis". So the basic objective of a cash budget is to maintain a liquid position should any emergencies arise.

In order to avoid a cash crisis, determine your restaurant's needs. The amount required will depend on the size of the operation; however, a rule of thumb is that 10% of your working capital be cash.

A good cash budget can allow you to:

1. maximize the efficient use of cash by timing cash disbursements with cash receipts;
2. identify periods when cash deficiencies arise and the need for additional capital arises;
3. determine the timing of loan repayments;
4. determine when cash and trade discounts should be taken;
5. reveal periods of surplus cash which may be used for investment in inventory;
6. determine the adequacy or the need for additional operating capital.

Remember to make the cash budget as realistic as possible; don't overestimate sales or underestimate expenses. A sales forecast should be as accurate as possible, because it serves as the basis for cash and expense estimates. Your local Business Resource Centre can provide assistance in developing a cash budget.

The next step is to project the profit and loss statement (see example on next page). The "Expenses" are your operating expenses and can be transcribed from the operating expenses form. The "Cost of Sales" is the cost of the inventory plus any related expenses, such as frequent and returns. Your sales figure is determined by the unit sales times the number sold.

Attempting to project future sales and expenses is a difficult undertaking. However, by taking an objective and realistic appraisal of the situation, a good estimate can be made. The cost approach to projection of sales covered earlier is perhaps the best way of determining what your sales level should be. All estimated costs are dependent on meeting these sales levels. Remember, very few businesses start making profit immediately. So don't try to over-inflate figures and experience failure later. If you taken an objective estimate, you may discover that perhaps the location will not sustain your operation. And don't forget: try and project a profit and loss statement over three years.

Finally, in approaching any financial institution, a balance sheet will also be required as part of your financial presentation (see example on next page). A balance sheet is a statement of whay you own (assets), and what is owed (liabilities). Anything purchased by you will become an asset, regardless whether the funds are borrowed or owned. All debts (short and long-term), accounts payable, profit/loss, and owner's equity make up the liability half of the balance sheet. This also should be projected over a three year period.

EXHIBIT I
CANADIAN RESTAURANT OPERATION REPORT - 1984
TOTAL NATIONAL SAMPLE

	Mean of Sample (\$)	Percent of Total Sales (\$)	Percent of Food Sales (\$)	Percent of Beverage Sales (\$)	Dollars per Seat (\$)
SALES					
Food	716,433	70.5	100.0	239.6	3,169
Beverage	298,922	29.4	41.7	100.0	1,322
Total Sales	1,015,356	100.0	141.7	339.6	4,491
COST OF SALES					
Cost of Food	273,784	26.9	38.2		1,211
Cost of Beverage	100,240	9.8		33.5	443
Total Cost of Sales	374,024	36.8			1,654
Other Income	27,021	2.6	3.7	9.0	119
Gross Income	668,354	65.8	93.2	223.5	2,936
CONTROLLABLE EXPENSES					
Payroll	287,189	28.2	40.0		1,270
Benefits	31,893	3.1	4.4		141
Direct Operating	66,049	6.5	9.2		292
Music and Entertainment	11,223	1.1	1.5		49
Advertising and Promotion	23,798	2.3	3.3		105
Energy	19,760	1.9	2.7		87
Administrative and General	36,182	3.5	5.0		160
Repairs and Maintenance	17,812	1.7	2.4		78
Total Controllable Expenses	493,909	48.6	68.9		2,184
Profit Before Occupation Costs	174,444	17.1	24.3		771
OCCUPATION COSTS					
Rent	41,557	4.0	5.8		183
Property Taxes	9,998	0.9	1.3		44
Other Taxes	2,290	0.2	0.3		10
Property Insurance	3,170	0.3	0.4		14
Total Occupation Costs	57,016	5.6	7.9		252
Interest	14,432	1.4	2.0		63
Depreciation	20,428	2.0	2.8		90
Restaurant Profit	82,566	8.1	11.5		365
Other Deductions	8,222	0.8	1.1		36
Income Taxes	6,955	0.6	0.9		30
Net Income	67,389	6.6	9.4		298

Source: Laventhol & Horwath (Cameron S. Hawkins)
Management Consultants
20 Queen Street West, Suite 200
Box 75
Toronto, Ontario
M5H 3V7
Area Code (416) 977-2555

or

Joyce Reynolds
Canadian Restaurant & Foodservice Assoc.
Area Code (416) 923-8416

Manitoba Restaurant & Food Services Assoc.
475-6660

BALANCE SHEET
For

(Name of Your Firm)

As of _____
(Date)

ASSETS

Current assets:

Cash:

Cash in bank

\$ _____

Petty cash

\$ _____

Accounts receivable

\$ _____

Less allowance for doubtful accounts

Merchandise inventories

TOTAL CURRENT ASSETS

\$ _____

Fixed assets:

Land

\$ _____

Buildings

Delivery equipment

Furniture and fixtures

Less allowance for depreciation

\$ _____

Leasehold improvements, less amortization

\$ _____

Total fixed assets

\$ _____

\$ _____

TOTAL ASSETS

\$ _____

LIABILITIES AND CAPITAL

Current liabilities:

Accounts payable

\$ _____

Notes payable, due within 1 year

Payroll taxes and withheld taxes

Sales taxes

Total current liabilities

\$ _____

Long-term liabilities:

Notes payable, due after 1 year

\$ _____

Total liabilities

\$ _____

Capital:

Proprietor's capital, beginning of period

\$ _____

Net profit for the period

\$ _____

Less proprietor's drawings

Increase in capital

\$ _____

Capital, end of period

\$ _____

Total liabilities and capital

\$ _____

FINANCIAL RECORDS

To provide yourself with a picture of the day-to-day operation, there are a number of business records which can be utilized. Some which should be kept are the daily register, the income statement, the balance sheet, and accounts payable ledger. They will provide you with a basis for future loans, tax returns, and long-term growth plans.

The daily register will provide all the income and expense figures which should be transferred to a permanent ledger. It can then be used to develop the income statement and the balance sheet. The daily register will also provide information allowing an assessment of day-to-day operations.

The income statement is composed of total sales, cost of goods sold, gross profit, operating expenses and net profit. These figures should be developed for certain periods and then converted to percentages of total sales to determine operating ratios. (See table for a list of operating ratios for various restaurants.) The ratios calculated should remain constant, even with sales fluctuations. However, should the ratios change, the reasons should be determined and remedial action taken.

a balance sheet lists the restaurant's assets and liabilities. As a result, it provides the reader with a quick means of assessing the value of the restaurant. Assets include the value of the equipment, inventory, and money on hand. Liabilities include taxes, wages payable, accounts payable, and interest.

A listing of accounts payable will provide a constant update of receipts due. Since a good reputation is essential in the field, this listing should continually be updated so that payments are not missed and a reputation tarnished.

By using the financial records, together with the working cash flow statements, costs can be monitored more accurately.

SUMMARY

Each business plan is different and must reflect the specific needs and interests of your business.

The following is an outline of what a business plan should include:

1. Statement of goals and objectives.
2. Determination of potential market and a sales forecast.
3. Evaluation of location (new or existing).
4. Determination of store interior layout and exterior layout.
5. Determination of sources of supply, terms and inventory of requirements.
6. Provision for handling incoming merchandise (receiving, checking, marking, and the movement of goods).
7. General pricing policy and pricing strategy to be used to stimulate profitable sales volume.
8. Promotional policies and strategies.
9. Management policies and practices for handling store personnel.
10. A complete financial analysis of the business:
 - determining Capital Cost Expenditure;
 - determining Operating Costs;
 - developing financial information for sourcing of funds and control.
11. Expense control system (accounting procedures).

Carefully develop your business plan. This time and effort can be your most important investment; potential difficulties may be identified and rectified before they can become a detriment to your operation.

Competent legal counsel should be retained to explain the legal position of various forms of business organization. It is also desirable that professional accounting assistance be secured, not only for advice on taxation matters, but also for setting up, maintaining, and auditing adequate financial records for the business.

Of course, you should have assured yourself on the most important question already — whether the type of business you have chosen, its location, market, cash needs, general profitability and possibility of growth, are favourable.

For further information and advice on these matters, contact your local Business Resource Centre.

TABLE 1. Selected operating ratios, in percent of sales, 1987
Manitoba, Licensed Restaurants (SIC 9211)

	Total(1)	Bottom 25%	Lower middle 25%	Upper middle 25%	Top 25%		Total(1)	Bottom 25%	Lower middle 25%	Upper middle 25%	Top 25%
Businesses in sample No.	31										
Low sales value \$5000 &	11										
High sales value \$5000 &	20	9	15	157	187						

Selected expense item	Industry average(2)					% businesses reporting	Reporting businesses only (3)				
	Total	Bottom 25%	Lower middle 25%	Upper middle 25%	Top 25%		Total	Bottom 25%	Lower middle 25%	Upper middle 25%	Top 25%
	Percent of sales						Percent of sales				
Cost of sales	35.0	53.2	38.2	38.0	29.2	94.6	41.2	60.9	38.2	38.8	31.2
Occupancy expenses	12.8	11.4	12.2	15.1	11.4	92.3	13.8	15.1	13.1	15.1	11.4
Depreciation	3.0	0.7	4.2	4.0	3.0	71.9	4.1	4.1	4.5	4.7	3.3
Repairs & maintenance	1.5	2.4	1.3	1.2	1.1	78.3	2.0	3.8	1.6	1.5	1.4
Heat, light & telephone	3.3	3.6	4.0	3.4	2.3	89.6	3.7	5.0	4.3	3.5	2.4
Rent	4.8	4.8	2.7	5.6	5.0	99.0	5.9	15.3	3.3	8.7	5.7
Personnel expenses	24.1	15.8	23.5	30.2	26.2	97.7	24.7	16.2	25.3	30.2	26.2
Financial expenses	4.4	5.7	5.5	3.4	3.3	95.8	4.8	8.4	5.9	3.4	3.3
Interest & bank charges	3.6	5.2	4.1	2.9	2.4	85.2	4.2	8.2	4.4	3.0	2.6
Professional fees	0.8	0.5	1.4	0.5	1.0	87.7	0.9	0.7	1.5	0.5	1.0
Other expenses	18.5	14.7	18.8	14.1	28.5	100.0	18.5	14.7	18.8	14.1	28.5
Profit (loss)	1.4	-0.8	3.8	1.1	1.4	100.0	1.4	-0.8	3.8	1.1	1.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	...	...	...	...	...

Symbols

- zero or no observations
- too small to be expressed
- ... not applicable
- x confidential

Footnotes

(1) These estimates are based on a sample of businesses reporting sales between \$25,000 and \$2,000,000.

(2) Value in each cell = $\frac{\text{Total weighted expenditure on a given item}}{\text{Total weighted sales of all businesses in the sample}} \times 100$ for each quartile.

(3) Value in each cell = $\frac{\text{Total weighted expenditure on a given item}}{\text{Total weighted sales of businesses reporting this item of expenditure}} \times 100$ for each quartile.

This portion of the table pertains only to the businesses reporting the specific expense item. Therefore these ratios are calculated individually and the total will not necessarily equal 100%.

Notes

Data are shown by quartiles when at least 13 of the sampled businesses report the specific item.

Records were ranked in ascending order according to sales size. Each quartile (i.e. bottom 25%, lower middle 25%, etc.) represents one quarter of the total number of businesses. Within each quartile, the average ratio is presented. For comparison purposes, the high and low values of sales are shown.

How to use the tables

- (1) Locate the appropriate sales range that is displayed on the two lines entitled "Low sales value" and "High sales value".
- (2) The selected range will indicate the proper quartile, i.e. the bottom 25%, the lower middle 25%, the upper middle 25% or the top 25%.
- (3) Data pertaining to the selected sales size range will be in that quartile.

Standard Industrial Classification Definition (SIC 1980):

SIC 9211 - Licensed Restaurants

Businesses primarily engaged in preparing and serving meals for consumption on the premises with a license to serve alcoholic beverages. Licensed food and beverage service restaurants, licensed restaurants and licensed restaurant services are included in this industry.

- 39 - (a)

TABLE 2. Balance sheet profile for incorporated businesses only, 1987
Manitoba, Licensed Restaurants (SIC 3211)

	Total	Bottom 25%	Lower middle 25%	Upper middle 25%	Top 25%
Businesses in sample (No.)	45				
Low sales value (\$000's)	(1)	--	--	--	--
High sales value (\$000's)	(1)	--	--	--	--
Average \$000's					
Assets					
Cash	-	--	--	--	--
Accounts and notes receivable	8	--	--	--	--
Inventory	-	--	--	--	--
Other current assets	30	--	--	--	--
Total current assets	36	--	--	--	--
Fixed assets	129	--	--	--	--
Less: Accum. dep. on fixed assets	-	--	--	--	--
Other assets	27	--	--	--	--
Total assets	202	--	--	--	--
Liabilities and equity					
Current loans	7	--	--	--	--
Other current liabilities	45	--	--	--	--
Total current liabilities	52	--	--	--	--
Mortgages payable	-	--	--	--	--
Long term debt	24	--	--	--	--
Other liabilities	108	--	--	--	--
Total liabilities	184	--	--	--	--
Total equity	18	--	--	--	--

(1) These estimates are based on a sample of businesses reporting sales between \$25,000 and \$2,000,000.

See Table 1 for symbols and notes.

TABLE 3. Financial ratios(1) for incorporated businesses only, 1987
Manitoba, Licensed Restaurants (SIC 3211)

	Total(2)	Bottom 25%	Lower middle 25%	Upper middle 25%	Top 25%
Businesses in sample (No.)	45				
Low sales value (\$000's)	(1)	--	--	--	--
High sales value (\$000's)	(1)	--	--	--	--
Average					
Liquidity ratio					
Current ratio (times)	0.7	--	--	--	--
Leverage ratios					
Debt/equity ratio (times)	10.2	--	--	--	--
Interest coverage ratio (times)	1.7	--	--	--	--
Debt ratio (times)	0.9	--	--	--	--

(1) The ratios represent the average of ratios for each business in the group and cannot be calculated from the figures shown in Table 2.

(2) These estimates are based on a sample of businesses reporting sales between \$25,000 and \$2,000,000.

See Table 1 for symbols and notes.

Definitions:

1. Liquidity ratio:

Current = current assets / current liabilities.

2. Leverage ratios:

a) Debt/equity = total liabilities / equity.

b) Debt ratio = total liabilities / total assets.

c) Interest coverage = net profit = interest expense / interest expense.

SOURCE: Small Business and Special Surveys Division, Statistics Canada.

- 39 (b)

TABLE 4. Statement of changes in financial position for incorporated businesses only, 1987
Manitoba, Licensed Restaurants (SIC 9211)

	Total	Bottom 25%	Lower middle 25%	Upper middle 25%	Top 25%
Businesses in sample No.	22				
Low sales value \$500's	1				
High sales value \$500's	21				
Average (\$000's)					
Operating activities					
Cash from operations	20	--	--	--	--
Depreciation	18	--	--	--	--
Other	-12	--	--	--	--
Dividends	-3	--	--	--	--
Investment activities					
Disposal of fixed assets	10	--	--	--	--
Purchase of fixed assets	-2	--	--	--	--
Increase in investment	-7	--	--	--	--
Decrease in investment	1	--	--	--	--
Financing activities					
Increase in long term debt	1	--	--	--	--
Repayment of long term debt	-20	--	--	--	--
Loans from shareholders	5	--	--	--	--
Repayment of loans from shareholders	-7	--	--	--	--
Advances & loans from government	-	--	--	--	--
Increase in equity	-	--	--	--	--
Decrease in equity	-3	--	--	--	--
Other	-	--	--	--	--
Increase(decrease) in cash & equivalents	-	--	--	--	--
Cash & equivalents-Beginning of the year	9	--	--	--	--
Cash & equivalents - End of the year	9	--	--	--	--

(1) These estimates are based on a sample of incorporated businesses reporting sales between \$25,000 and \$2,000,000. Sample count includes only those businesses reporting a statement of changes.
See Table 1 for symbols and notes.

TABLE 5. Employment changes by size of business, 1984-1987 based on SIC classification in 1987
Manitoba, Licensed Restaurants (SIC 9211)

Business size expressed in average labour units(1)	Number of businesses	Total payroll (\$000's)	Average labour units(1)	Changes in number of businesses with paid employees	
				Newly reporting(2)	No longer reporting(3)
1984					
Total	471	59,221	8.643	82	50
less than 20	352	15,293	2,218	84	41
20 - 99	103	23,542	3,435	16	8
100 - 499	10	8,387	1,227	1	-
500 and over	6	12,019	1,763	1	1
1987					
Total	570	76,898	10.054	115	---
less than 20	436	20,822	2,701	92	---
20 - 99	119	31,358	4,127	22	---
100 - 499	9	8,316	1,094	1	---
500 and over	6	16,200	2,132	-	---

(1) Average labour units are calculated by dividing total payroll by the average annual wage and salary rate as reported in the Survey of Employment, Payroll and Hours, Statistics Canada, Catalogue 72-002. An average labour unit could be interpreted as a full-time employee. Note that the business size groups used are determined at the Canada level. Thus if a business has at least 500 employees in Canada as a whole but less than that number in any given province it is shown in the 500 and over group.

(2) Refers to businesses reporting no payroll deductions in the previous year.

(3) Refers to businesses reporting no payroll deductions in the following year.

"Newly reporting" and "no longer reporting" businesses are assumed to have been in activity for six months and the information is adjusted accordingly.

See Table 1 for symbols and notes.

SOURCE: Small Business and Special Surveys Division, Statistics Canada.

TABLE 6. Selected operating characteristics of small businesses by sales quartile, 1985-1987
Manitoba, Licensed Restaurants (SIC 9211)

	Total	Bottom 25%	Lower middle 25%	Upper middle 25%	Top 25%
1985					
Number of observations in sample	94				
Average sales \$	371,307	31,746	153,388	349,700	322,134
Average expense \$	383,078	36,312	146,103	334,488	384,310
Average net profit (loss) \$	8,929	-5,166	7,883	15,212	-17,384
Businesses reporting a profit (No.)	72				
Average sales \$	365,103	71,374	153,338	350,370	384,131
Average expense \$	348,415	59,331	142,691	335,353	348,286
Average net profit \$	18,688	12,043	10,647	15,017	35,845
Businesses reporting a loss (No.)	12				
Average sales \$	376,829	89,977	159,071	231,389	966,274
Average expense \$	398,157	110,145	172,895	295,202	1,014,384
Average net loss \$	-21,329	-20,168	-13,824	-3,213	-48,110
1986					
Number of observations in sample	308				
Average sales \$	285,804	82,820	118,638	214,556	747,400
Average expense \$	273,449	58,331	116,376	205,455	715,032
Average net profit (loss) \$	12,355	6,289	1,662	9,101	32,368
Businesses reporting a profit (No.)	220				
Average sales \$	285,804	59,383	128,358	207,943	746,731
Average expense \$	260,343	48,178	116,671	193,188	683,136
Average net profit \$	25,261	11,205	11,487	14,755	63,595
Businesses reporting a loss (No.)	88				
Average sales \$	295,056	78,280	114,085	240,544	749,333
Average expense \$	317,159	90,743	117,026	253,662	807,206
Average net loss \$	-22,103	-14,463	-2,961	-13,118	-57,873
1987					
Number of observations in sample	121				
Average sales \$	291,625	45,074	136,309	278,077	707,039
Average expense \$	284,446	44,678	130,037	274,584	688,506
Average net profit (loss) \$	7,179	396	6,272	3,513	18,533
Businesses reporting a profit (No.)	74				
Average sales \$	309,912	54,828	139,232	270,652	774,935
Average expense \$	288,454	44,641	130,774	252,484	725,935
Average net profit \$	21,458	10,187	8,458	18,168	49,000
Businesses reporting a loss (No.)	47				
Average sales \$	284,985	35,599	115,396	297,586	611,360
Average expense \$	284,468	44,714	124,765	332,631	635,761
Average net loss \$	-19,483	-9,115	-9,369	-35,045	-24,401

(1) These estimates are based on a sample of businesses reporting sales between \$25,000 and \$2,000,000.

See Table 1 for symbols and notes

TABLE 6. Selected operating characteristics of small businesses by sales quartile, 1985-1987
Manitoba, Take-Out Food Services (SIC 9213)

	Totality	Bottom 15%	Lower middle 15%	Upper middle 15%	Top 15%
1985					
Number of observations in sample	45				
Average sales \$	231.584	--	--	--	--
Average expense \$	204.334	--	--	--	--
Average net profit (loss) \$	26.730	--	--	--	--
Businesses reporting a profit (No.)	34				
Average sales \$	231.247	--	--	--	--
Average expense \$	197.302	--	--	--	--
Average net profit \$	33.945	--	--	--	--
Businesses reporting a loss (No.)	11				
Average sales \$	127.572	--	--	--	--
Average expense \$	143.699	--	--	--	--
Average net loss \$	-16.127	--	--	--	--
1986					
Number of observations in sample	132				
Average sales \$	180.222	34.117	63.035	162.446	461.288
Average expense \$	170.027	29.288	56.271	154.434	440.115
Average net profit (loss) \$	10.195	4.829	6.764	8.012	21.174
Businesses reporting a profit (No.)	95				
Average sales \$	180.573	36.537	61.985	159.431	464.339
Average expense \$	164.336	26.245	51.958	144.474	434.667
Average net profit \$	16.237	10.292	10.027	14.957	29.672
Businesses reporting a loss (No.)	37				
Average sales \$	179.185	29.280	67.448	170.727	449.288
Average expense \$	188.275	35.372	74.385	181.790	461.553
Average net loss \$	-9.090	-6.092	-6.937	-11.063	-12.267
1987					
Number of observations in sample	72				
Average sales \$	177.685	36.457	76.963	159.879	435.362
Average expense \$	172.077	36.599	62.349	150.947	418.412
Average net profit (loss) \$	5.588	1.858	-5.386	8.932	16.950
Businesses reporting a profit (No.)	46				
Average sales \$	194.767	40.031	91.863	168.001	479.172
Average expense \$	179.344	33.659	80.378	156.026	447.311
Average net profit \$	15.423	6.372	11.485	11.975	31.861
Businesses reporting a loss (No.)	26				
Average sales \$	150.011	36.187	65.804	126.956	367.099
Average expense \$	156.989	40.841	83.236	130.358	373.381
Average net loss \$	-6.958	-4.654	-13.432	-3.402	-6.283

(1) These estimates are based on a sample of businesses reporting sales between \$25,000 and \$2,000,000.

See Table 1 for symbols and notes